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## Argentina

### SUGAR ANNUAL

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**Approved By:**

Dwight Wilder

**Prepared By:**

Ken Joseph

**Report Highlights:**

Argentine sugar exports in marketing year 2010 are forecast at 600,000 tons (raw value). Despite a projected drop in production, exports will remain high because of larger output than domestic market needs, an expected drop of local demand and the reduction of high stocks. Sugar output is projected down because of low returns in the previous season and a dry summer. Practically all mills are very enthusiastic about the prospects of supplying the domestic fuel market with ethanol under the government's biofuels promotion regime that mandates gasoline be mixed with 5 percent ethanol starting in 2010. Much investment is anticipated in this industry.

**Commodities:**

Sugar, Centrifugal

**Production:**

Argentine sugar production for marketing year MY2010 is projected at 2.25 million tons (raw value). Most contacts expect a drop in production from last year due to a combination of several factors: a) the previous harvest finished late, leaving less time for the cane plantations to express their potential; b) many small and medium farmers did not renew their cane as needed; c) the price of fertilizers and other inputs increased significantly with small and medium producers delaying applications, or not applying what was needed at all; d) low returns forced producers to cut costs and therefore, reduced the labor applied to the plantations; and e) a drought suffered during January and February. Most of these problems were widely seen in Tucuman province, while plantations in the northern provinces of Salta and Jujuy were primarily affected by drought. A small expansion in area and expected better processing yields will partially offset lower production.

During the past few years, which were the most profitable for the local sugar industry in decades, most mills invested in technology and equipment in order to increase production efficiency, generate energy, and improve environmental aspects. However, nowadays, there is practically no new investment geared towards the sugar industry. Industry contacts indicate that a few mills in Tucuman province will change hands in the near future.

Mills are expected to invest in alcohol production equipment as the government has recently announced new regulations encouraging consumption of ethanol in vehicles. The biofuels law passed in 2006 mandates that starting in 2010, diesel and gasoline sold locally must be mixed with 5 percent biofuel. In the case of gasoline, it will most likely be ethanol from sugar cane, which would total roughly 270 million liters annually. Most mills have small distilleries, but they are now planning to update/upgrade them for this new promising business. Current talks indicate that the Northern provinces of Salta and Jujuy would build a large dehydrator for their use, and Tucuman would do the same in their area. There are many discussions about who will finance the construction of the one in Tucuman. Nonetheless, once decided and approved, it would take about one year to have it operating. Contacts indicate that by January 2010, when mandates are in place, there would be three or four sugar mills prepared to market about 70 million liters of ethanol for fuel. Argentina currently produces alcohol from molasses which is primarily used by the local food, beverage, pharmaceutical, and chemical industries. Some 60-70 million liters are normally exported, which if needed to comply with fuel mix mandates, could be shifted to the local fuel industry. Industry contacts estimate that some 500,000 tons of sugarcane could be crushed directly for ethanol production in MY2010.

Most contacts believe that the ethanol business, as it has been designed, will help the sugar industry significantly in two ways: 1) the production of ethanol is promised to be profitable and have a secure demand; and 2) it will allow for transform into ethanol the equivalent of about 400,000 tons of sugar (primarily raw), which nowadays has to be exported to the world market

with uncertain returns. Argentina would basically continue exporting refined sugar to neighboring Chile and Uruguay and raw sugar to the U.S. under the sugar quota.

While the mandated mix is fixed at 5 percent, it is doubtful that new sugar cane will be planted for this purpose, as the current area can easily supply the needs of both the sugar and ethanol industries. However, if mandate mixes are increased and more cane is needed in the future, Tucuman could shift some 80,000 hectares to sugar cane (currently mostly under soybean production). The potential expansion in Salta and Jujuy is much more limited, but some additional land could be put into production. New areas could be developed in other provinces like Misiones, Corrientes or Formosa, but it will demand large investment.

Argentina produces high fructose corn syrup (HFCS). There are four companies which operate six plants in total, with a daily production capacity of approximately 3,200 tons. In late 2008, one of the local companies announced a joint venture with Cargill to increase their plant's capacity by half, and to build a new plant in the next few years. Based on government data, Argentina's production in 2007 reached 300,000 tons of HFCS 55 and 50,000 tons of HFCS 42. Approximately 90 percent of HFCS 55 is used for non-alcoholic beverages, while HFCS 42 is used for fruit juices, carbonated beverages and bakery products.

#### **Consumption:**

Domestic consumption in MY2010 is forecast at 1.71 million tons (raw value), slightly lower than MY2009 but significantly lower than in MY2008. The slowdown in the economy, the shifting from sugar to less expensive sweeteners (especially in the beverage industry) and the drop in exports of products with sugar content are the main factors creating a smaller consumption.

#### **Trade:**

Argentine sugar exports for marketing year (MY) 2010 (June 2009-May 2010) are forecast at 600,000 tons (raw value). Regardless of an expected drop in production, this large volume is a result of a significantly larger output than what it is consumed domestically, and the exports of relatively high stocks from the previous season.

Local traders expect exports to be about 380,000 tons (raw value) of refined sugar and 220,000 tons of raw sugar. Most sugar mills plan to export large volumes of raw sugar right at the beginning of the harvest season (May-July) in order to get rid of most surplus sugar to avoid downward pressure on prices in the local market. Domestic prices in the past crop were low throughout the season because there was surplus sugar in the market. The local sugar complex hopes to collect higher prices as production costs will be somewhat higher this year. During the past season, returns for most farmers and mills were very tight. Some small and medium cane producers lost money.

Argentina is expected to export about 25,000 tons of organic sugar in MY2010. This volume is smaller than the previous year due to the effects of a dry summer. There is practically one mill which produces this type of sugar and is located in Salta province. Almost all its production is exported primarily to the E.U. and the U.S.

Despite the global financial crisis, several sugar exporters are optimistic about world sugar prices for the next two seasons as they expect world demand to be higher than production.

Argentina's main market for refined sugar is expected to continue to be Chile, followed by Uruguay. In calendar year 2008, Chile imported large volumes from Argentina, but the growing competition from Colombia and Guatemala is expected to reduce exports somewhat. The Russian Federation is forecast to be Argentina's number one market for raw sugar, followed by the U.S. (through the Tariff Rate Sugar Quota) and other markets, such as Uruguay, China and the E.U.

Sugar imports during MY2010 are expected to be insignificant. In MY2009, a large beverage company imported sugar from Brazil due to favorable prices, but this advantage is expected to disappear.

Sugar exports are taxed 5 percent, but benefit from a rebate of 4.08 percent.

### Stocks:

Ending stocks in MY2010 are forecast at roughly 115,000 tons, somewhat less than what it is consumed in a month. The local industry always tries to end the sugar season with stocks near these levels by exporting excess sugar throughout the year to avoid downward pressure on domestic prices. Most stocks are generally in the hands of large sugar mills and in companies which issue warrants.

### Policy:

There is no new policy directed to the sugar industry. However, in January 2008, Congress passed Law 26,334 which promotes the production of bioethanol from sugarcane. The new law allows sugar mills to participate under the local biofuels promotion regime, which provides tax cuts and advantages. In November 2008, the government ruled and defined the way of setting the price of ethanol under the promotional regime for the domestic fuel market.

### Production, Supply and Demand Data Statistics:

Sugar, Central and Argentina	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jun 2007			Market Year Begin: Jun 2008			Market Year Begin: Jun 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
		Data			Data			Data	
Beginning Stocks	53	53	53	103	105			181	
Beet Sugar Production	0	0	0	0	0			0	
Cane Sugar Production	2,190	2,680	2,190	2,250	2,420			2,250	
Total Sugar Production	2,190	2,680	2,190	2,250	2,420			2,250	
Raw Imports	2	0	0	0	0			0	
Refined Imp.(Raw Val)	10	2	10	0	26			4	
Total Imports	12	2	10	0	26			4	
Total Supply	2,261	2,735	2,235	2,353	2,551			2,435	
Raw Exports	136	450	136	150	260			220	
Refined Exp.(Raw Val)	202	375	205	190	360			380	
Total Exports	338	825	341	340	620			600	
Human Dom. Consumption	1,810	1,750	1,830	1,890	1,740			1,710	
Other Disappearance	10	10	10	10	10			10	
Total Use	1,820	1,760	1,840	1,900	1,750			1,720	
Ending Stocks	103	150	105	113	181			115	
Total Distribution	2,261	2,735	2,235	2,353	2,551			2,435	

Sugar Cane for Central and Argentina	2006			2007			2008		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Date			Date			Date
Area Planted	310	310	310	310		320			322
Area Harvested	300	300	300	300		308			312
Production	20,780	22,500	20,780	22,300		21,400			20,500
Total Supply	20,780	22,500	20,780	22,300		21,400			20,500
Utilization for Sugar	20,780	22,150	20,780	22,300		21,400			20,000
Utilization for Alcohol	0	350	0	0		0			500
Total Utilization	20,780	22,500	20,780	22,300		21,400			20,500

#### Author Defined:

#### Prices:

In MY2010, the local industry will try to increase the price of sugar at the mill because returns are very tight and production costs have increased. During MY2009, due to excess sugar in the market, the price fluctuated between 0.95 and 1.05 pesos per kilo, 10 percent higher than the previous year. However, during that same period, production costs for the farmer increased 30-40 percent. In crop MY2010, production costs increased marginally (practically all costs increased except agricultural chemicals, which decreased).

The government has agreed with the industry to market a certain volume of sugar at a low price. At retail, this sugar currently costs about 1.85 pesos per kilo, while the higher quality sugar sells for 2.13 pesos per kilo.

The following table shows sugar prices at the mill (without 21 percent VAT) and sugar prices at retail (with 21 percent VAT) in Buenos Aires city (pesos per ton), and the exchange rate (pesos per US dollars) in the period 2006-08:

	2006	2006	2006	2007	2007	2007	2008	2008	2008
Month	\$/ton Mill	\$/ton Retail	\$/US\$	\$/ton Mill	\$/ton Retail	\$/US\$	\$/ton Mill	\$/ton Retail	\$/US\$
Jan	772	1370	3.06	935	1530	3.08	958	1700	3.16
Feb	812	1380	3.08	947	1530	3.08	1005	1700	3.16
Mar	829	1380	3.08	912	1530	3.08	912	1720	3.16
Apr	838	1410	3.05	870	1540	3.08	870	1720	3.18
May	871	1430	3.09	867	1550	3.08	1067	1840	3.11
Jun	879	1480	3.09	850	1560	3.09	1116	1880	3.03
Jul	865	1490	3.09	847	1570	3.14	1021	1880	3.03
Aug	864	1490	3.10	890	1580	3.18	1108	2000	3.04

<b>Sep</b>	843	1500	3.10	947	1600	3.16	1083	2020	3.13
<b>Oct</b>	853	1530	3.10	924	1610	3.16	1043	2020	3.38
<b>Nov</b>	861	1520	3.08	925	1630	3.15	1052	2040	3.38
<b>Dec</b>	888	1540	3.08	1042	1680	3.15	1044	2070	3.45
<b>AVG</b>	848	1460	3.08	913	1576	3.12	1023	1882	3.18

The current exchange rate ranges between 3.65 to 3.70 pesos per dollar.